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THE CRISIS AND THE FIRM

The case of h3

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Abstract

In times of crisis, firms need to take measures to survive and prepare for the economic recovery. Nevertheless, many are the firms that simply retract during crisis and hope for it to pass. The present case study gives the successful example of Café3 Restauração S.A., a Portuguese food service firm that was able to grow during the recession that occurred in Portugal in the past years, thanks to the launch of a new fast food concept.

The central questions of the case, and its relevance, relate to opportunities that downturns and changing consumer behaviours bring to entrepreneurial projects. Using its previous experience the firm was able to bring novelties to a market that offered better possibilities of growth. Between 2007 and 2012, the firm multiplied its revenues by eight and more than fifty outlets were opened, including overseas and other brands' outlets. The case discusses the introduction of standardised procedures and their implications in the operational efficiencies, as well as employee motivation. Moreover, it implies that the firm's success is due to the sum of each action and that h3 was the first of more casual dining fast food concepts.

Keywords: Strategy, Entrepreneurship, Resilience, Crisis, Café3, h3, fast food

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Introduction

The present case challenges students to understand how some firms may grow in times of great uncertainty, facing economic downturns and austerity measures. When disruption and instability are the norm, some markets decline while others grow. During recessions, many firms tend to cut expenses trying to survive while forgetting to increase their income to build their future.

The case refers to the entrepreneurial story of Café3 Restauração S.A. and its new business venture: h3 New Hamburgology. The national fast food concept is revolutionising the fast food market in Portugal, since 2007, thriving through periods of low growth rates and recent recession.

Even though it started as a full service restaurant in 2004, the owners realised business did not have the potential to grow to satisfactory levels as an independent restaurant. Meanwhile, the opportunity to adapt one of the restaurant's strongest plates appeared to fill a market gap found in the Portuguese mall food courts. The result was h3 New Hamburgology, a fast food chain, which opened its first restaurant in 2007. Since then, the brand has had experiences in Poland, Spain and Brazil. According to the firm, revenues multiplied by eight from 2007 to 2012, achieving 27M€ in 2012.

h3 concept

The brand's concept is about providing a healthier option over the fast food market. The main product is a development of the former Hamburgueses. Its production process was enhanced to be served as an innovative good quality meal enjoyed by a wide range of population, using fresh ingredients, while keeping both speed and price usually associated with fast food. According to the firm, the term gourmet has had too much use. Hence, Café3 Res created two trademarks and registered them at World Intellectual

Propriety Organization: Not so fast-food and New Hamburgology (Correia, 2012). The first is about the mix between fast food and quality ingredients: “food should be gourmet, not its price” (h3). To achieve that, menus including sides and any drink are priced from 6.75€. New Hamburgology stands for what an h3 burger is: “200g of pure beef meat, grilled up to desired point (medium or well done) using only sea salt and pepper.”(h3) At h3, burgers are grilled by approved professionals from “Escola de Grelha h3” (translates to School of Grill). Moreover, every h3 burger is served on a heated dish and is to be eaten with metal cutlery. From time to time, h3 would see its menu offer enriched with new plates, drinks and desserts. As much as possible, the brand uses national products, except products associated to a typical region such as the *Foie Gras* (French) or *Mozzarella* (Italian). On what concerns store appearance, h3 stores are clean white and light blue open kitchen type, to contrast with competition in food courts. As shown in Exhibit 5, h3 stores are sober and display their marketing communication towards customers with placards. Its menu offer is also shown by large photos on the wall helping customers to choose quicker.

Economic situation in Portugal 2002 – 2013

Portugal is a small open Euro Zone economy, thus being considerably vulnerable to external conditions. In the past decade, public deficit was permanently above the expected while growth was constantly weaker. From 2004 until 2007, Portugal experienced an average yearly growth of approximately 1.5%. During the same period, unemployment rose from 7.1% to 8.9%. (Eurostat, 2013)

When the 2008 financial crisis hit Portugal, government increased expenses to keep the economy flowing, and debt and interests rose to unsustainable levels. As a result, in April 2011, the Portuguese government was forced to ask for international assistance,

under penalty of defaulting within weeks. Portugal received an assistance plan by the International Monetary Fund, the European Commission and the European Central Bank, worth 78 bn €. As a condition of bearing a lower interest rate than the markets, the three institutions demanded Portugal to go through a plan of budget control and state restructuring. From 2008 to the first quarter of 2013, unemployment increased to 16.8%, GDP has dropped by 5.7% (Eurostat, 2013) and purchasing power has plunged. An important measure for the food market was its VAT increase from 13% to 23%, since January 2012.

Portuguese Food Service Market

The Portuguese food service market was composed in its majority by independent outlets, most of which table service restaurants, experiencing a reduction on revenue and number. Between 2005 and 2010 there these restaurants was closing at 1% annual rate (Euromonitor, 2011). According to AHRESP (Portuguese Restaurant and Hotel Sector Association), between 2008 to 2012 restaurants saw revenues drop by 27% and in 2012 alone, as VAT increased from 13 to 23%, in the food service sector, revenues plunged by 14.6%. Despite that fact, chained restaurants, many of which international brands, have experienced positive growth on sales and number of outlets, especially in the fast food market.

With the economic downturn, consumers switched from more expensive to more affordable offers. Meanwhile, consumers' awareness towards healthier diets increased and in this scenario, not only people became more price conscious but they were also keen on better value-for-money offers. Hence, new fast food chains, perceived as healthier options such as GoNatural, h3 New Hamburgology, and Prego Gourmet, opened doors to seize that opportunity in the past decade. In particular, Euromonitor

(2012) presents h3 as a brand that "has entered this market (fast food) and has quickly asserted itself as a very strong player" and is among the most "popular options for a fast meal, especially during lunch time". Thus, these brands have allowed for an increasing importance of national chains in a market led by major international chains (see Exhibit 6). The market with sales around 685M€ was led by McDonald's with about 30% of market share.

Franchised and company-owned stores are the most popular methods to spread fast food restaurants across the country. Simultaneously, malls with food courts, are prime locations to establish fast food and casual dining outlets, in Portugal. Additionally, with a market saturated with different options, new brands need to bring something innovative to the overall mall spectrum in order to be allowed in (Salema, 2013).

Café3 Restauração S.A.

Since early age, three friends Albano Homem de Melo, António Cunha Araújo and Miguel Van Uden desired to enter the food service business. However, their careers went on to different areas. Prior to their business partnership, Albano worked in the advertising industry, António was a lawyer and Miguel was in the real estate business. Their will to own a restaurant turned real in 2004 when the three opened Café3, an upper-end restaurant located in the largest avenue of Lisbon, Portugal. The restaurant's furniture had designer signature and the responsible for the kitchen was Chef Vitor Lourenço.

At the time, the avenue was strictly an office area and was empty at night. As most customers worked in the surrounding offices, there were major differences between lunch and dinner times at the restaurant. To overcome this dissymmetry, Café3 developed a variety of dishes with burgers, called "Hamburgueses", which enabled the

restaurant to serve gourmet food to a more price conscious customer. The "Hamburgueses", owners say, became a very successful dish, attracting group reservations. Nevertheless, this success was not enough to satisfy the partners on what concerned profit margins and future perspectives were not optimistic.

Meanwhile, the partners felt it was not possible, in a food court, to have a low priced quality healthy dish at a fast food pace, unless it was a salad or a buffet. Fast food was, in their eyes, synonymous of low quality food. However, they had a product they thought could be fit to satisfy the apparent market gap. Hence, the partners conducted their own study to understand the habits of Lisbon food court customers, analysing customers' attitudes. According to them, they did not ask consumers directly so they could take unbiased conclusions. The assumption was that, through their observations, they would understand whether or not there was space to create a concept that served the alleged market gap that was unexpected to the average consumer. Their conclusions were that the idea was be feasible, if they could adapt a similar offer to Hamburgueses into a shopping mall.

Aiming to build a new food chain, the three partners, with the help of previous experience, were able to build a team of marketing and imaging professionals to perfect both product and concept to the need they had found in Lisbon's shopping malls. The next step was to convince shopping malls managers to host the concept. Using their good network, h3 founders schedule meetings with shopping mall managers. However, at first, these had reservations towards the possibility of success of a new burger chain competing against multinational enterprises (MNE). Nevertheless, after presentations, meetings would sometimes end with the analysis of the best place to locate an h3 store in the food court (Interview with Albano H. Melo, 2013).

The opening of the first two h3 stores happened in the second semester of 2007, in Lisbon. At this stage, the two stores' kitchens worked as in regular restaurants. Part of the kitchen staff from the Café3 was in charge of h3's and procedures were not standardised. However, in April 2008, with the opening of a third store, standardisation became a necessity so procedures could be replicated by regular employees. These employees would have to provide customers of all stores with a homogeneous service throughout all h3 outlets. Indeed, that is one of the strengths of chained businesses: customers know what to expect from any outlet. Moreover, standardisation of procedures allows for better efficiency and quality control. With that in mind, Café3 Restauração S.A. created a series of initiatives to control procedure quality. In that same year, when the partners felt the new brand was sustainable, Café3 restaurant was closed and the firm started working only on the developing endeavour.

Despite the success of h3, shown by great concentrations of clients queuing to be served, owners were relentless and did not want to franchise the concept. Only after gaining trust with a candidate did they decide to grant him the exploitation of h3 concept north of Coimbra. As the business developed in Portugal and stores were opened in major or nearby office areas shopping malls, the brand saw potential to internationalise. In 2011, h3 opened its first two stores outside shopping malls. According to the firm, they were already present in almost all attractive Portuguese shopping malls, and street stores offered new growth possibilities. Besides, h3 needed to explore other approaches, with the aim of internationalisation, as food courts could not be attractive in all other markets. Thus, h3 started developing its concept to fit in other contexts.

As a success case and reaching all Portuguese busiest centres, the next step for h3 was internationalisation. Using different approaches, in 2011, h3 reached Poland, Spain and

Brazil. Despite the efforts, only the Brazilian branch thrived. The first international experience was Poland which seemed an attractive market for h3 due to its growing economy, existence of shopping mall food courts and known cases of Portuguese firms' internationalisation success. The endeavour was a joint venture with Portuguese partners who challenged the brand to settle in Warsaw. However, it did not endure as there was a lack of knowledge about the Polish market: Polish eating habits do not cope with Portuguese lunch and dinner times. Moreover, at the time, h3 depended on industrial supply for sauce production.

The approach to the Spanish market was made through a Master-franchisor contract with Grupo Vips which would endure for 20 years (Mónica, 2011). Representing over twelve food service brands, Grupo Vips is one of the biggest and most experienced players in the Spanish market. Despite their close geographical proximity, Portugal and Spain have very distinctive food markets. Fast food restaurants' location in Spain is done especially through street stores. Additionally, Spanish shopping malls do not have food courts with common eating areas. Instead, each restaurant has its own sitting area¹. In Spain, the goal was to have h3 stores opened nearby the busiest office areas of Madrid as these would be more similar to the Portuguese locations of h3 stores. Nevertheless, the decision was Grupo Vips' which opened h3 restaurants in less prime locations² but, late 2012, the group took the decision not to keep the stores open. According to Nuno Van Uden, due to the economic downturn in Spain, Grupo Vips set its strategy on its own brands and let h3 go. Despite past decisions, h3 did not put aside the possibility of a new contract with Grupo Vips.

¹ Taken from interview with Albano H. Melo

² Taken from interview with Nuno Van Uden

The last international destination was Brazil. To enter this market, h3 developed a joint venture with the local partner, Grupo Icatu. The country, says Albano H. Melo, had the advantage of being the origin of the Portuguese shopping mall format. After opening several stores, the concept has proved successful. By mid 2013, h3 employed around 300 people in Brazil, in 14 stores, both owned and franchised and it was the only thriving overseas endeavour.

The other front to grow the firm was the launch of more fast food concepts. Also in 2011, another concept, in partnership with Chef José Avillez, saw day light: Empadaria do Chef. This concept, which operates in the same niche as h3, came in the form of pies inspired in traditional dishes and ingredients. The sides offer was widen and new desserts were idealised. Furthermore, daily made soup from fresh ingredients was added to the menu³. The new product allowed the concept to rapidly engage in other selling formats, although, by 2013, all outlets were within shopping mall food courts. Empadaria do Chef offered take-away service and, with the help of NoMenu⁴, also made home deliveries. By the end of 2013 there were seven Empadaria do Chef's stores in the areas of Lisbon, Oporto and Madeira. Despite the number of stores opened, before launching another concept or internationalising Empadaria do Chef, Albano Homem de Melo said, in the first half of 2013, that the firm wanted the new concept to prove itself in Portugal first. He added at the time they had "another ten new concepts studied that one day might see the light of day but today's priority is h3". Indeed, in the last days of 2013 a new casual dining concept, named *Slow*⁵, opened doors, raising Café3 S.A.'s portfolio to three different brands.

³ Taken from Empadaria do Chef's *website* - www.empariadochef.com

⁴ www.nomenu.pt - a food deliver firm

⁵ www.slow.pt

Procedure development

As a premium fast food business, h3 needed to be fast, efficient and customer satisfying.

The solution was a series of initiatives from searching more efficient standardised methods of production to store supply and employee training and empowerment.

To increase efficiency, production methods were perfected over time. In the beginning of 2008, daily store set up required the work of six employees who would produce all necessary products from raw materials, such as sauces, juices and sides. Sauces however needed to chill after being cooked under heat, which firm says had a control problem. To overcome this issue, still in 2008, sauces started being produce industrially and were then delivered to h3 outlets. Finally, in May 2012, h3 discovered a breakthrough process enabling sauce preparation to be done without the use of heat. Since then the firm is no more dependent on a third party to perform that task. According to Albano H. Melo, with standardisation and procedure development, since in 2013, preparation time is a two hour task for a single employee, with more controlled and higher quality results.

Task courses

To maintain a standard on all h3 restaurants, owned and franchised, the firm produced a system of courses to teach employees how to perform each task. In the form of modules, these HQ produced courses have both practical and theoretical parts. To make learning an easier experience, course materials were made available in a digital platform and were reader friendly. Specific modules corresponded to specific tasks and only employees who underwent them may perform the corresponding tasks. In order to change position, an h3 employee can take a module and then apply for the respective position when vacant. Nevertheless, one position was given a major importance: the griller, the person responsible for handling h3's main product. For that position, the firm

started Escola de Grelha h3. Led by Chef Vitor Lourenço, the school was started with to teach incoming professionals on how to grill h3 burgers. Candidates must be approved in 72 parameters of grilling an h3 burger. Practice is performed only in certain stores where the grilling area is more spacious so trainees and tutors are able to fit in without stressing good store function. At the end of the course, approved candidates receive a bronzed, silver or golden spatula, depending on their grade.

Employee empowerment and motivation

The owners chose not to direct most marketing campaigns to the customer. Instead, at Café3 Restauração, campaigns were mostly directed to those who dealt directly with the customers: the employees. Called "ambassadors", employees were directed with a series of motivational placards promoting the brand's strengths, concepts and methods. Each semester the firm organises a party for all employees (working in Portugal), who are formally invited and have firm paid transportation to and from the party. The goal is to surprise employees and keep an interesting work environment. "The day after the party is the day we have less people not showing up of the year, they are all excited about last night's party and want to know all the gossips about it" states Nuno Van Uden.

Communication and promotion

h3 had three points of communication with its customers: outlets, webpage and Facebook. The founders believed that investing in customer experience would be more beneficial than publicising the brand. In fact, h3's publicity out of store was made in two ways: word of mouth and good press reviews. Store design played the role of evidencing h3 in the food courts to attract customers. Simultaneously, store design helped employees performing their tasks; employees had drawn hints of what they should do in case they forgot. Despite its success, h3 acknowledged the risks of relying solely on good press and word of mouth.

Supplier

When the three partners decided to open a restaurant chain, they realised their current suppliers would struggle to face the increasing demand. Therefore, a commitment was made with the meat supplier, who worked closely with the partners and the chef to develop the h3 burger, so the two firms would grow together. By 2013, h3 had stood with the same meat supplier. However, with the evolving economic crisis, and increasing production factors' prices, many producers stopped making deliveries.⁶ As a result, and as h3 stores were getting geographically more distant, the firm signed a contract with a Distribution Centre (DC). To ensure quality and standardisation across time and place, the firm set rules on which products could be selected by the DC and which would have to be bought to specific producers. Hence, the DC had key ingredients that would have to be bought to finely selected producers, including the butcher, and the DC was free to choose the supplier of commodity ingredients such as salt or pepper. In terms of orders, so as to control costs, each store would send both the DC and HQ a copy of the order. Then, after the DC delivered the products, Café3 Restauração S.A. paid it and the DC was responsible to pay individual suppliers. This can be seen as Café3 Restauração only having one supplier and, according to them, they were its best customer, accounting for about 50% of revenues.

Conclusion

Up to the point at which Café3 started a third brand, the firm had thrived a long way since the opening of its independent restaurant. Through a period of stagnation and recession the firm opened outlets, started other concepts and established ventures overseas with positive results (Exhibit 7). In retrospective, the measures taken helped improve the quality of food courts' offer. Started by three friends, the enterprise that

⁶ Taken from Interview with Nuno Van Uden

introduced fresh ingredients to cooked fast food was becoming an even more important player in the business with the introduction of new concepts.

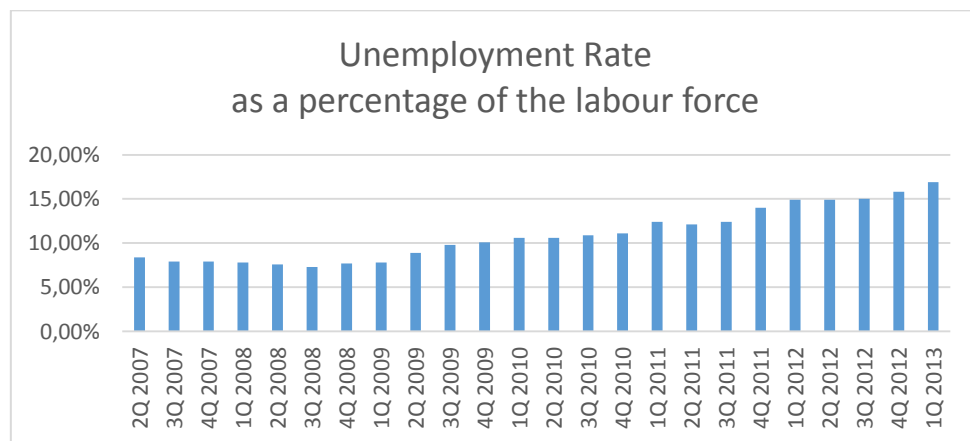
Exhibits

Exhibit 1 - Portuguese GDP evolution – index based on 2002

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Index Based 2002	100	99.1	100.7	101.5	102.9	105.4	105.4	102.3	104.3	102.6	99.3	97.4
GDP Growth	-	-0.9%	1.6%	0.8%	1.4%	2.4%	0%	-2.9%	1.9%	-1.6%	-3.2%	-1.9%

Source: Eurostat

Exhibit 2 - Unemployment evolution



Source: www.tradingeconomics.com | Instituto Nacional de Estatística

Exhibit 3 - h3 revenue and store evolution, (Revenues) in thousand Euros

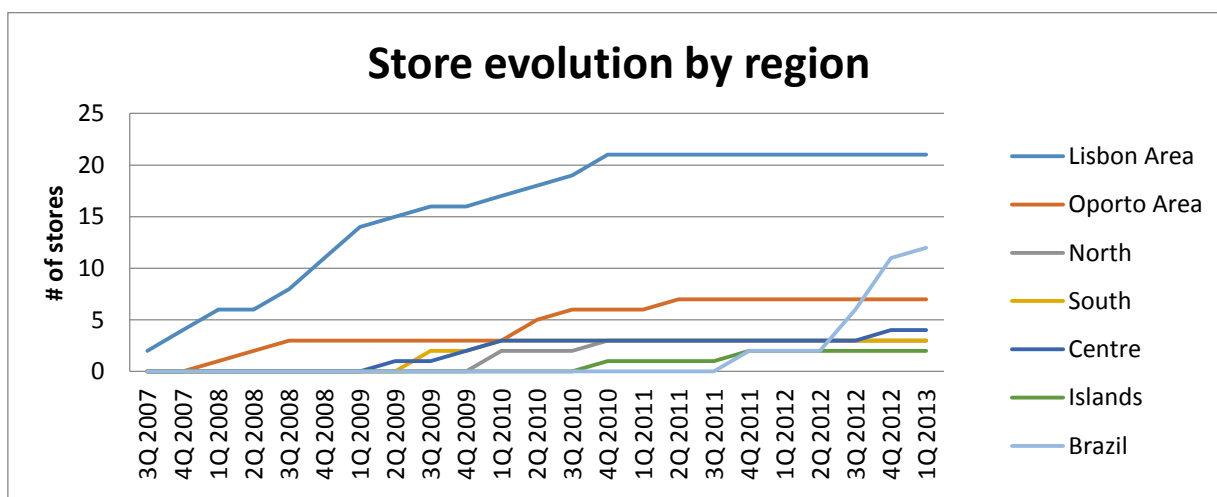
Year	2007	2008	2009	2010	2011	2012	2013
Revenues	341	3.027	10.987	22.000	24.000	27.000	- ¹
#Stores	2	8	21	34	40	50	51 ²

Source: h3

¹ - No relevant data at the time

² - as in march 2013

Exhibit 4 - h3 store evolution in Portugal and Brazil, by region



Source: Caf 3 Restaurac o S.A.

Exhibit 5 - Fast Food market share in Portugal, per firm (in percentage)

Fast Food	2007	2008	2009	2010	2011	2012	Trend
Mc Donald's	30,1	29,5	31,4	31,7	32,4	32,0	Positive
Galp Energia SGPS S.A.	3,5	3,8	3,8	4,7	5,3	4,7	Positive
Starfoods S.A.	-	-	-	-	4,1	3,6	Positive
Burger King Holdings SA	1,6	2,0	2,5	2,9	3,2	3,2	Positive
Agrolimen SA	3,1	3,2	3,3	3,1	3,3	3,2	Stable
Caf�3 Restaurac�o SA	0,5	0,7	0,9	1,7	3,0	2,9	Positive
Lucas Caetano & Martins Lda	2,0	2,0	1,9	1,9	2,0	1,9	Stable
Go Natural!	0,6	1,0	0,7	1,6	1,5	1,5	Positive
Yum! Brands Inc	2,0	1,6	1,2	1,2	1,3	1,4	Negative

Source: Euromonitor International 2012 * - Average Annual Market Share Growth, in percentage

Exhibit 6 - h3 food court store example



Source: Café3 Restauração S.A.

Exhibit 7 - Café 3 Restauração S.A. Financial Data, in Euros

Year	2009	2010	2011	2012
Revenues	9.254.740	15.962.441	17.616.368	17.593.031
COGS	2.956.903	4.892.551	5.443.920	5.384.603
Supply and external services	1.886.975	5.322.066	5.691.074	5.944.919
Expenses with salaries	3.146.858	4.674.703	5.185.851	5.015.265
Other revenues and expenses	-101.576	715.773	114.790	112.572
EBITDA	1.162.427	1.788.893	1.410.314	1.360.817

Source: Café3 Restauração S.A.

Teaching Note

Purpose and relevance of the case

The case was prepared to discuss the actions taken by the firm that have allowed it to thrive during a time in which many restaurants have closed doors and consumers have seen their disposable incomes reduced. It is an example of what firms might do when their core market is not thriving or simply is not enough to satisfy shareholders. Despite several variables have contributed to the firm's success, the case does not aim to quantify them. Instead, it aims to understand their positive and negative aspects.

Entrepreneurial activities during recessions allow firms to build resilient businesses that will set standards for industries when the economy recovers as although often smaller and fragile, these endeavours have flexibility as their advantage (Pierce, Michael, 1997). Hence, the case gives the example of a firm which facing poor prospects for its core business found an opportunity to enter a different market in the same sector that offered a better outlook.

Key Issues: Strategy, Entrepreneurship, Resilience, Crisis

Questions

- 1 - Construct a SWOT analysis for the h3 concept in Portugal. What were the drivers for its success?
- 2 - In your opinion, which were the major actions taken by Café3 S.A. to create resilience and which factors influenced it?
- 3 - What type of strategy should have been pursued by the firm?

Answers

Answer to Question 1

The SWOT analysis is used to understand an agent's position and help in decision taking. The goal of this question is to understand which have been the challenges and tools of h3 to grow.

Strengths: The brand sells a **mono-product**: hamburgers. This allows it to gain efficiency as there are no switch costs on production. Even the **customisation** done is based on the time a burger stays on the grill. Other strength of h3 is the introduction of **fresh ingredients** into the fast food market, other than salads. Allied with the latter introduction of the **chill cooking method**, this strength became more harder to copy thus, more sustainable. Its **distinctive colour** is also a mark that catches customer

attention. The development of the **course system** that teaches employees all they need to know to work at an h3 store allowed the brand to standardise the service therefore being more reliable to the customer, while it helped the brand on the introduction of updated procedures. Although not all **international experiences** were successful, these were a valuable learning processes, teaching the firm to choose entry modes analyse market more accurately. Since the beginning, Café3 S.A. tried to establish good **relationships with key partners**, with long run perspectives which might have discouraged deviating behaviours. An example was the commitment with the meat supplier to ensure that his investments to enlarge production capacity in order to supply the new fast food chain would not be jeopardize. At the same time, these protect h3 from leakages namely on the burger recipes, which pieces of beef are included in the h3 burger is a secret.

Weaknesses: h3 chose to be a premium fast food brand thus, with slight above average prices, working in a niche segment with a **smaller customer base**. Despite that, the **long lines** often visible in front of outlets during lunch time can either discourage potential customers or create a sense of desire, even though the lines flow quickly. According to Nuno Van Uden, these lines create a sense of desire that makes customers try to be early to be served first. Beyond lunch time, however, food court restaurants do not usually have waiting lines but time between order and payment in h3 is considerably longer in this period as the concept requires **volume to be fully-efficient**, especially due to burgers' quality not being sustained for longer than 20 minutes after cooked. That is also a drawback when it comes to the offer of take-away and deliveries: h3 cannot guarantee that the burgers reach their destination in perfect conditions. Another limitation is that h3 fills a need that only exists in major urban centres as it requires high frequency during meal hours, while in small urban/rural regions customers tend to have

more time to eat at home. Lastly, although food courts exist in most countries, h3's current requirements are that demand must have a rush hour, where stores can be as efficient as possible.

Opportunities: With fresh ingredients, h3 gained the image of a healthier fast food. Hence, it responds to the trend of customers eating healthier yet at a fast pace and lower cost than table service restaurant. Therefore, h3 has the opportunity to attract, as it did in Portugal, customers from other markets. Moreover, in Portugal, there is the practise of some families to spend a day in shopping malls, during the weekend. This enlarges food court affluence, which may be seized by h3. Likewise, the launch of new concepts enables the firm to enlarge its offer thus, revenue source and eventually expand the new concepts overseas. The firm may also create a proper packages to increase h3 burgers' transportability for office and **home deliveries**.

Threats: Relying on **beef products** may bring problems if that commodity suffers from some external problem, such as diseases or scandals. The **arising competition** in the premium fast food may represent a threat in the sense that h3 will have to divide the niche with other firms. However, this might be attenuated as it can also strengthen the position of food courts where h3 has an outlet. Increasing **taxes** in Portugal have diminished both firms' profitability and customers' purchasing power. The VAT increase in 2012 is a reasonable justification for the revenue decrease in 2012 as the firm supported its effects. Hence, as already happened, tax increases may affect the firm's performance in the future as well.

Proposed SWOT analysis points

Strenghts

- Single product
- Speed, especially during meal hours
- Fresh Products
- Good locations
- Distinctive colour
- Standardized assembly procedures
- Guidebooks for all practices
- Key Partner relationships

Weaknesses

- Often long lines
- Slower out of meal hours
- Requires busy urban areas
- Cannot be eaten on the go
- Food courts are not the same everywhere
- Malls are impersonal places
- Not yet recognized world wide

Opportunities

- Growing health concerns
- Home deliveries
- Franchising world wide
- Attract customers from other markets
- Family Sunday spent in shopping malls

Threats

- Relying on beef products only
- Increase Gourmet fast food competition
- Taxes
- Lowering purchasing power
- Inexisting switching costs for customers

Answer to Question 2

Entrepreneurship was a key factor for the development of Café3 Restauração S.A. in a time of recession. Firms with this factor have greater inclination to take risks, favour change over the status-quo and are likely to view a recession as an opportunity to gain an edge over their competitors (Srinivasan, R., Rangaswamy, A., L. Lilien, G., 2005). Entrepreneurial firms perform well in hostile and uncertain environments partly because they adapt their efforts to the prevailing conditions and seek competitive advantage by taking risks in such environments (Covin & Slevin, 1989). As it is implied in the case,

the outlook for the full service restaurant market was not of growth, especially for independent firms. This was indeed the case of Café3, situated in an area of offices where lunch time was good for business but there was a lack of clients for dinner. Its response to the problem may be seen as the first step into a more resilient firm: the launch of the Hamburgueses as an innovative product that attracted **a wider customer base and increased revenues**.

As entrepreneurs, the owners realised that the new product could have other applications. Despite the apparent success with the burgers, the partners were not yet fully satisfied with their profits in the restaurant. This was the beginning of their second and most drastic measure to grow the firm: the **entrance in the fast food market** which offered a higher potential than the fully service restaurant. Nevertheless, the way the partners conducted the **study of their idea might have increased its potential** by allowing it to go beyond customer's expectations. Consumers were not asked directly what they wanted, so partners could keep possibilities open. Studying the behaviours of consumers, in food courts, the partners were able to understand the type and quantity of food people consumed as well as the amount of time and money spent per meal. Hence, conclusions were that despite people had little time, they wanted to eat a good quality meal at a reasonable price. After the study, as their concept was to increase the quality of offer in the food court, partners were convinced their idea would succeed.

It is not clear however whether or not a firm should drastically change its business (Gilbert et al, 2012) as most firms are not able to survive a disruption if they change their core business radically. When facing disruption, firms may adapt their core business and begin a new one in the same field yet fully adapt to the new market reality. In the case of Café3, these were the launch of the Hamburgueses and the later **opening of h3 that enhanced the firm's ability to attract more customers** and improve its situation.

However, the first two stores h3 made owners believe that the concept would thrive and more importantly, the second venture rapidly outperformed the restaurant. Hence, due to time and money restrictions, the restaurant was closed and efforts were put in h3.

The increasing importance of a **healthier diet** combined with a **decreasing purchasing power** from customers played a major role in the development of the brand. h3 served what was not perceived as fast food at fast food price and pace. Hence, the opening of more outlets throughout the major cities of the country was possible. Moreover, despite reluctance in giving power to third parties, the owners signed a **franchising contract** which also allowed the brand to spread quicker.

The efforts to keep procedures standardised and enhanced throughout time and across outlets also helped to keep the concept sustainable and build trust with consumers. The **teaching and motivational programs towards employees** are also likely to have contributed. Motivating and empowering employees of this type of business may help reduce turnover levels, thus decreasing costs with training. Besides, motivated employees are believed to perform better.

The **internationalisation and portfolio enlargement** actions allow Café3 Restauração S.A. to diversify its income sources. Pearce II et al (2002) suggest that "diversity provides the greatest insulation for a firm against the negative effects of recession" and "protects a company by mixing the sources of its revenues". Although not all h3 international endeavours paid off, as the case suggests, the Brazilian experience is expected to grow in the future. In the same sense, the launch of other fast food concepts gives the firm a chance to enlarge its market share.

Arguably, food courts in busy areas are often frequented by the same customers on a daily basis as they offer proximity and good variety of quality for money offers. Hence, despite being competitors, price quality based **concepts benefit with each other's**

presence in the food court as customers are expected to vary their purchases throughout the week. Therefore, by enlarging its portfolio the firm is able to increase purchases from the same customer to an extent that would not be possible with a single concept thus, increasing sources of revenue.

Answer to Question 3

Business cycles differ according to industry's specificities. Thus, disruptions tend to occur more or less rapid and predictably. In some contexts, certain firms are able to transform their industry. Following this idea, Reeves et al (2012) suggested four different approaches to a company's strategy depending on their market's predictability and malleability. The **Classical** strategy is to be pursued by firms operating in predictable markets yet hard to be changed by the firm. In this type of environment, the firm may only aim at doing its best given the conditions. Therefore, knowing itself, the firm should be able to build a strategy that will deliver the expected results. As the market is predictable, the firm is expected to be able to sustain the same strategy for a medium/long term.

The **Adaptive** approach on the other hand, is suited for firms which are not able to control their market, yet their market is unstable and unpredictable. Unlike the Classical approach where the firm is able to set a strategy for a medium/long term, the adaptive approach consists of being lean enough to change plans quickly. Setting a heavy plan would most probably turn the firm unable to respond rapidly to any likely market disruption.

For the combination of unpredictability with malleability the authors suggest a **Shaping** approach: despite being unpredictable, the firm is able to change its environment to its advantage. In this sense, the company is able to take advantage of its own innovations

and open road for new developments. Nevertheless, this type of environment is keen on rapid changes as other firms shall try to do the same.

Lastly, in markets that are both predictable and malleable, the suggested approach is the **Visionary**. In this scenario, as the market is predictable, the foundations of the strategy may be set for a medium long run. However, here the firm is able to transform the market to its best interest by seizing new opportunities. Hence, this environment is keen on more sustainable disruptions as the firm is able to lead the changes through a longer term plan.

Regarding the case, the market's situation seemed predictable with the growing trends of consumers restrictions and behaviours, such as decreasing disposable income and growing attention to healthier diets. The founders of h3 were able to take advantage of that situation. Their vision to introduce a different concept that filled a, then proved existent, market gap which came from their previous experience and was built with a long term perspective. Despite the improvements, the procedures suffered throughout time and were frequently upgraded. Afterwards, new chains with a closer offer to h3 developed, which gives the idea that firms in this market are able to change it and not only adapt to it. In this sense, Café3 Restauração S.A.'s appropriate strategy approach for h3 seems to have been of Visionary. Prior to the opening of the first store, the owners conducted their own study so that it would be less biased by what was expected at the time. That allowed them to pursue a bolder strategy that would introduce a different product with a different perceived value. According to Euromonitor, h3 is more perceived as a grill than a fast food restaurant. Hence, operating in a somehow predictable market and having changed it with a medium/long term strategy, it seems safe to say that h3 indeed followed an strategy similar to the *Visionary* suggested by the authors.

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